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S-20719A-09-0583

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Antonio Gill

OPEN MEETING AGENDA ITEM

From: John Stueber [jcs@summit-capital.net]
Sent: Wednesday, April 04, 2012 4:18 PM
To: Pierce-Web; Newman-Web; Burns-Web; Stump-Web; Kennedy-Web; Paul Huynh
Subject: To the AZCC Securities Division, RE: Hartgraves
Attachments: Letter to the Commissioners - Securities Fraud ARS 44 1991.pdf

Dear Mr. Chairman and Commissioners,

I would like to understand your position and opinion on the letter attached, please let me know if I can be of service to you.

Sincerely,

John Stueber, President
Summit Capital
2385 Camino Vida Roble, Suite 113
Carlsbad, CA 92011
www.summit-capital.net
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Arizona Corporation Commission
DOCKETED
APR 10 2012
DOCKETED BY

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From: John Stueber [mailto:jcs@summit-capital.net]
Sent: Friday, March 23, 2012 4:23 PM
To: 'pierce-web@azcc.gov'; 'newman-web@azcc.gov'; 'burns-web@azcc.gov'; 'stump-web@azcc.gov'; 'kennedy-web@azcc.gov'; 'phuynh@azcc.gov'
Subject: FW: To the AZCC Securities Division

TO: ARIZONA CORPORATE COMMISSION, Securities Division

Gary Pierce, Chairman (pierce-web@azcc.gov)
Paul Newman, Commissioner (newman-web@azcc.gov)
Brenda Burns, Commissioner (burns-web@azcc.gov)
Bob Stump, Commissioner (stump-web@azcc.gov)
Sandra D. Kennedy, Commissioner (kennedy-web@azcc.gov)
1200 West Washington
Phoenix, AZ 85007-2996

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2012 APR 10 P 3:12

Dear Mr. Chairman and Commissioners,

RE: Jimmy Don Hartgraves, Jr., a married man
Laurie J. Hartgraves, a married woman
Morgan AZ Financial, LLC
Heartfelt Properties, LLC

Morgan Management, LLC
Morgan Financial, LLC
Morgan Financial Lenders, LLC
Mr. Hartgraves' off-shore entities
John Does 1 -10, Et.Al.

I. INTRODUCTION

Jimmy Don Hartgraves, Jr., a married man, Laurie J. Hartgraves, a married woman, Morgan AZ Financial, LLC, Heartfelt Properties, LLC, Morgan Management, LLC, Morgan Financial, LLC, Morgan Financial Lenders, LLC, Mr. Hartgraves' off-shore entities, John Does 1 -10, Et.Al., shall hereinafter be referred to as the "Respondents".

The 44 Investors shall hereinafter be referred to as the "Investors".

My name is John Stueber and this is my second email to you regarding the Respondents in this case.

I would like to share some opinions, raise questions and perhaps attempt to understand how things work within the Securities Division of the Arizona Corporate Commission; moreover, attempt to understand your commission's capacities to uphold the A.R.S and make appropriate referrals to protect the public's best interests within Arizona and California.

Before I do so, I wanted to send to you some examples of evidence that in my opinion I believe my law firm has already supplied to the Respondents; however, it is my opinion that the Respondents may have withheld this evidence from the Investors, the Commissioners and the Judge in this case despite the legal directives to the Respondents to deliver to the court any evidence which may have consequences to the Investors. The lis pendens attached is only one of approximately 19 that were filed in 12/07 on the lots that the Respondents acquired in 5/08.

It is my opinion that Merrill Lynch was made aware of the fraud prior to Merrill Lynch selling the loans to the Respondents.

It is my opinion that the Respondents have over 1,000 pages of evidence which may have been withheld from the Investors, the Commissioners and the Judge.

Is it possible that if evidence was found to be withheld, the Committee might consider delaying their final findings so that a thorough review can be performed to view the relevancy to the Investors, the Commission and the Judge?

If it were found by the Committee or the Judge that that there may have been willful withholding of evidence and/or misrepresentations by the Respondents under oath, would this be grounds for entering further violations of ARS, including, but not limited to ARS §1991?

What happens after this case is over, do the Commissioners report these findings to other licensing regulators and agencies?

It is my opinion that this list of sample Exhibits was delivered to the Respondents prior to the purchase of the Flagstaff lots:

1. Exhibit 1: Clemency letter discussed with Respondents
2. Exhibit 2: Lis Pendens for John Stueber, Lot 175

Finally, I strongly suggest you contact William Gotses, who is also a Borrower and has an extensive background in securities and I imagine he would be willing to cooperate fully with your special investigation. His contact number is: 858-395-3833 and his email is: bgotses@hotmail.com.

Sincerely,

John Stueber
619-855-8000

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Wednesday, April 04, 2012

ARIZONA CORPORATE COMMISSION, Securities Division

Gary Pierce, Chairman (pierce-web@azcc.gov)
Paul Newman, Commissioner (newman-web@azcc.gov)
Brenda Burns, Commissioner (burns-web@azcc.gov)
Bob Stump, Commissioner (stump-web@azcc.gov)
Sandra D. Kennedy, Commissioner (kennedy-web@azcc.gov)
1200 West Washington
Phoenix, AZ 85007-2996

Dear Mr. Chairman and Commissioners,

RE: Jimmy Don Hartgraves, Jr., a married man
Laurie J. Hartgraves, a married woman
Morgan AZ Financial, LLC
Heartfelt Properties, LLC
Morgan Management, LLC
Morgan Financial, LLC
Morgan Financial Lenders, LLC
Mr. Hartgraves' off-shore entities
John Does 1 -10, Et.Al.

I. INTRODUCTION

Jimmy Don Hartgraves, Jr., a married man, Laurie J. Hartgraves, a married woman, Morgan AZ Financial, LLC, Heartfelt Properties, LLC, Morgan Management, LLC, Morgan Financial, LLC, Morgan Financial Lenders, LLC, Mr. Hartgraves' offshore entities, John Does 1 -10, Et.Al., shall hereinafter be referred to as the "Respondents".

The 44 Investors shall hereinafter be referred to as the "Investors".

The majority of California residents; John Stueber, Greg Chigas, Sean West, Rick White, Brian Swan, Rhonda Swan, Kim Swan, Jim McInerney, Larry Burkley, Mark Sukenik, Rob Walcher, William Gotses and others, whether the loans were cancelled or not, shall hereinafter be referred to as the "Borrowers".

Employees of First Magnus, Vince Goett and their co-conspirators shall hereinafter be referred to as the "Original Promoters"

My name is John Stueber, I would like to share some opinions, raise questions and perhaps attempt to understand how things work within the Securities Division of the Arizona Corporate Commission; moreover, attempt to understand your commission's capacities to uphold the A.R.S and make appropriate referrals to protect the public's best interests within Arizona and California.

Before I do so, I wanted to send to you some examples of evidence that my law firm has already supplied to the Respondents; however, it is my opinion that the Respondents may have withheld this evidence from the Investors, the Commissioners and the Judge in this case. It is my opinion that Merrill Lynch was made aware of the fraud prior to Merrill Lynch selling the loans to the Respondents.

It is my opinion that if evidence was found to be withheld, that it is possible that the committee might consider delaying their final findings so that a thorough review can be performed to view the relevancy to the Investors, the representations of the Respondents and in my opinion there may be additional Violations of ARS, including, but not limited to A.R.S. §44-1991 and potentially other regulatory agencies who may be interested in the Commissioner's findings and the judges decision.

William Gotses and I have filed a lawsuit against the Respondents. Recently, I discovered that the Securities Division of the Arizona Corporate Commission was investigating the business activities and the representations of Jim Hartgraves. It is our opinion that your investigation and that the 44 investors were withheld from us by the Respondents and the evidence in our case may have been also withheld from the Investors, your Commission, this series of legal proceedings, and the various regulators.

It appears as though your commission may have made findings of or rendered preliminary opinions regarding:

1. Mr. Hartgraves/his related entities allegedly selling unregistered securities.
2. Mr. Hartgraves/his related entities allegedly soliciting and contracting business with unaccredited investors.
3. Mr. Hartgraves/his related entities allegedly representing that he has "nothing to hide" and he has complied with your September 28, 2011 Procedural Order to have the Respondents disclose any possible consequences to the members of the MF Lenders.

I have filed current claims against the Respondents in your investigation and I would be interested in knowing if you have taken a deeper look into several issues, including my opinion that there was widespread fraud on behalf of First Magnus. It is my opinion that the Commission and the Investors may not have been notified of these issues by the Respondents.

It is my opinion that it would be premature to come to a Commission decision without looking into the material evidence, which may show a link between the Original Promoters, First Magnus, Merrill Lynch and The Respondents. It is my opinion that there may or may not be a link between the appraisal values and the Respondents. Is it true that your investigation concluded a link between a First Magnus employee (Kitty Dobey) and the Respondents?

II. FIRST SET OF OPINIONS and QUESTIONS

Here are opinions I wish to share with the Commissioners:

1. It is my opinion that the Respondents may have failed to furnish the commission and the 44 investors the case numbers on the multiple cases involved in the John Stueber, Dr. Richard Casteen and William Gotses cases filed against them by the Respondents, our counter-claims, our separate claim; moreover, the approximate 1,000 pages of evidence that the three of us have furnished to the court.

2. It is my opinion that The Respondents may have failed to furnish our law firm the evidence, the names of the 44 investors, their claims, the on-going investigation of your Commission and/or any other past or present investigations or court findings and the corresponding evidence regarding the above.

3. It is my opinion that the Respondents may have failed to share with you and the 44 investors that before the Respondents purchased the properties from Merrill Lynch, the Respondents had performed approximately six months of due diligence with the Borrowers, Merrill Lynch, and other interested parties.

4. It is my opinion that The Respondents may have failed to share with you and the 44 investors about the Respondent's knowledge of approximately 19 Lis Pendens filed on the properties in question, prior to acquiring the various properties.

5. It is my opinion that The Respondents may have failed to share with you and the Investors about the discussions and meetings with the defrauded Borrowers, who notified the Respondents over a six month period regarding the fraud which occurred prior to the Respondents purchasing the properties in May of 2008.

6. It is my opinion that The Respondents may have known about the ongoing litigation in the Flagstaff Ranch project and may have omitted or withheld this knowledge from the commissioners and the Investors.

7. It is my opinion that the properties were not A paper as the Respondent may have represented to the committee and the Investors.

8. It is my opinion that the properties were not "good as gold" as the Respondent may have represented to the committee and the Investors.

9. It is my opinion that The Respondents have allegedly used mail crossing state lines to make unlicensed securities solicitations and various other solicitations to unaccredited investors and perhaps some accredited investors, including the Borrowers regardless of whether there was an investment into the Respondents' entities.

10. It is my opinion that according to A.R.S. §44-1991, it is a fraudulent practice and unlawful for a person, in connection with a transaction to sell or buy securities to do the following:

a. Employ any device, scheme or artifice to defraud.
b. Make any untrue statement of material fact, or omit to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
c. Engage in any transaction, practice or course of business which operates or would operate as a fraud or deceit.

11. It is my opinion that according to your documents the commission submitted within the documents in this case, you have referenced Arizona Revised Statues and The Securities Exchange Act of 1933, The Securities Act of 1934 and alluded to Rule 10b-5. 10b-5 states that it shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

a. To employ any device, scheme, or artifice to defraud,

b. To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

c. To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

11. It is my opinion that if the panel looks at the history of fraudulent appraisals, they may agree with our analysis that the properties were at the time the Respondents purchased the lots (along with the $60,000 golf memberships) only worth $200,000 per lot. If this is true, do you think this may have been a material fact to share with the panel and the Investors?

III. SECOND SET OF OPINIONS AND QUESTIONS

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES
Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12
(See page 20, Lines 19 -25 and Page 21, Lines 1 – 7)
Is this in violation of The Securities Exchange Act of 1934, Rule 10b-5?

A. Okay. And it basically was originally a 19-page document, that when we sent this 19-page document from Capital Source drafted by Patton Boggs -- they are a Texas law firm for Capital Source -- our clients, it went over their heads. It went over their attorneys' heads. It went over our local attorneys' heads. We had quite a few look at it. So Patton Boggs and Don Newman worked together to draft -- to take their 19-page document and take it down to a three-page document, two pages and an acknowledgment, that everybody could agree to.

1. It is my opinion that The Respondents testified that the disclosure was too complicated and voluminous, so they condensed it down from 19 legal pages to two pages. Is this an example of misstatements of material facts or a failure to have a meeting of the minds with the Investors?

2. It is my opinion that perhaps two Investors had testified that they did not understand the documents and were unaccredited and unsophisticated investors, is this accurate?

3. It is my opinion that it might worth reading to see if the Respondents intentionally left out material facts to the Investors.

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES
Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12
(See Page 24, lines 9 – 12)
Is this an example of the Respondents only delivering to Ms. Dobey (an unsophisticated investor, who is unaccredited) the Promissory Note and transaction and no other documents or financials?

9. Q. Besides the promissory note and the transaction,
10. were there any other documents or financials that you
11. provided to Ms. Dobey at the time, if you recall?
12. A. No.

1. It is my opinion that if the Respondents willfully withheld information from the Investors that this would be an example of omissions of material facts.

AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
Page 5, Line 6 and Lines 12 - 14
On September 28,201 1, by Procedural Order, to clarify the standing of payments to investors, Respondents were ordered to file a memorandum to address the status of the following matters: the mount of each investor's funds (i.e. principal) remaining with Respondents; the amount of principal and interest which has been repaid or paid to each investor; the number of properties that have been sold from the portfolio and their selling prices; the number of properties which remain to be sold; and ;he date when the expected distribution of profits will be made to investors. Lastly, the date of termination of the Master Repurchase Agreement ("Repurchase Agreement") between Merrill Lynch Mortgage Capital Inc. ("Merrill Lynch Capital") and the various MF entities was to be disclosed **and any possible consequences to the members of MF Lenders. The Procedural Order also ordered the Division to file a response to Respondents' filing.**

1. Is this an example of intentionally defying a court order under the investigation if evidence was not shared with the Investors and the Commission? If the Respondents had possession of material facts which may or may not have been withheld from the Investors or the panel, is this a problem?

2. If it is found that evidence was material and relevant, would the panel consider this a violation of A.R.S. §44-1991? If it was found the Respondent willfully withheld evidence from the Investors, the commissioners and the judge in this case, would A.R.S. §44-1991 apply?

3. If the respondent was found to have intentionally answered a question incorrectly or actually admitted that the Respond knew of the fraud anytime between November 2007 and today's date, would that be a violation of A.R.S. §44-1991?

IV. QUESTIONS REGARDING THE COMMITTEE'S ALLEGED FINDINGS.

Are these the commission's findings or opinions or facts of law?

Is this the Securities Division of the Arizona Corporate Commission's allegations, proof and numerous findings that the Respondents may have violated numerous, rules, regulations, registration requirements, laws, may have committed fraud, including, but not limited to Securities Fraud? If the committee and judge find this to be true, would this be a violation of A.R.S. §44-1991?

If it is true that the commissioners and special investigators found the Respondents violated over 6 securities laws and maybe violated these 44 times per violations that there may be over 240 individual acts of securities fraud; does the panel intend to refer the Respondent to the other regulatory agencies to "protect the public?"

1. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
Violations of A.R.S. § 44-1801
(See Page 1, lines 16 – 21).
"...alleging violations of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

2. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1801
(See Page 6, lines 6 – 10).
"Between the time frame of February 1, 2006 to March 9, 201 1, MF was not registered as a dealer or salesman with the Commission. (Ex. S-2(a)). Between the timeframe of February 1, 2006 to March 9,201 1, Hartgraves was not a registered dealer or salesman with the Commission. (Ex. S-2(b)). Between the timeframe of February 1, 2006 to March 9, 201 1, MF Lenders was not a registered dealer or salesman with the Commission. (Ex. S-2(C))."

3. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1841
(See Page 7, lines 1 – 15)
"D. LEGAL ARGUMENTS.
I. THE MF NOTES ARE SECURITIES THAT WERE REQUIRED TO BE REGISTERED PURSUANT TO A.R.S. § 44-1841.
The MF Notes meet the broadly construed definition of "any note," within the meaning of A.R.S. § 44-1 801(26), are securities, and are required to be registered. *See* A.R.S. § 44-1 841. The Securities Act provides that a security may not be sold in Arizona unless it is registered with the Commission. *Id.* The MF Notes were not registered with the Commission, as required by A.R.S. § 44- 1841. For purposes of Arizona's registration provisions, the Arizona Supreme Court has held .hat Arizona law is clear regarding whether a note is a security and federal law is not needed for interpretative guidance.' *See State* v. *Tober,* 173 Ariz. 211, 213, 841 P.2d 206, 208 (1992). In *Tober,* the Arizona Supreme Court looked to the Arizona statutory definition of a security and held .hat all notes are securities that must be registered unless an exemption applies. As noted in *MacCollum,* "[tlhe definition of security for purposes of the registration statute is broad. It includes 'any note.'" *MacCollum* v. *Perkinson,* 185 Ariz. 179, 185, 913 P.2d 1097, 1103 (Ariz. 4pp. 1996) citing *Tober.* MF issued promissory notes to approximately 44 Arizona residents between the timeframe of February 2006 through June 2008. (Ex. S-5(a)-5(g); Ex. S-13)."

4. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1 801(26)
(See Page 9, lines 10 – 11
"With all the *Howey* elements met, the MF Notes constitute investment contracts within the meaning of A.R.S. § 44-1 801(26)."

5. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1 841
(See Page 14, lines 17 -20
"Since no other registration exemption was put forth or provided by the Respondents, let alone proven, the MF Notes were required to be registered pursuant to A.R.S. § 44-1 841. As such, each offer or sale of the MF Notes by the Respondents was in violation of A.R.S. § 44-1 841."

6. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1801
(See Page 14, lines 21 - 23).
"IV. THE MF LENDERS MEMBERSHIP INTERESTS ARE INVESTMENT CONTRACTS AND THEREFORE ARE SECURITIES.
MF Lenders offered and sold unregistered securities in the form of investment contracts when they offered and sold the membership interests pursuant to the MF Lenders Exchange Memo."

7. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
44 Violations of A.R.S. § 44-1841
(See Page 17, lines 6 - 17).
"VI, THE OFFERS AND SALES OF MF LENDERS MEMBERSHIP INTERESTS DID NOT QUALIFY FOR THE PRIVATE OFFERING EXEMPTION PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT SINCE RESPONDENTS FAILED TO ESTABLISH THE SECURITIES QUALIFIED FOR THE EXEMPTION AND THE EVIDENCE PROVED THAT THE REQUIREMENTS OF RULE 506 WERE NOT MET.
A.R.S. § 44-1841 applies since Respondents failed to prove the MF Lenders investment contracts qualified for the Rule 506 exemption claimed, within the meaning of 17 C.F.R. 6 230.506, since they failed to present evidence establishing how they met each and every provision if the statute. The Exchange Memo states that the MF Lenders securities were to be offered pursuant to "the exemptions provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D [...I." (Ex. S-8, ACCOO1025). Section 4(2) of the Securities Act of 1933 is limited to "transactions by an issuer not involving any public offering." The reference to "rules and regulations issued under section 4(2)" encompasses Rule 506."

8. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
Violations of of A.R.S. § 44-1842
(See Page 20, lines 25 – 26 and Page 21, lines 1 - 4)
"The Division believes that Respondents will argue that the transactions are exempt pursuant to A.R.S. §44-1844(A)(l) for the MF Notes and 44-1844(A)(7) for the MF Lenders investment contracts and thus Respondents are exempt from the registration requirements of A.R.S. Q 44-1842. For the reasons discussed below, the Division disagrees that the transactions are exempt or that the Respondents are exempt from the registration requirements of A.R.S. § 44-1842."

9. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011
DOCKET NO. S-20719A-09-0583
Violations of A.R.S. § 44-1844
(See Page 21, lines 5 - 20)
"VIII. THE MF NOTES DO NOT QUALIFY FOR A TRANSACTION
EXEMPTION PURSUANT TO A.R.S. § 44-1844(A)(l) BECAUSE IT WAS A PUBLIC OFFERING.
As noted earlier, Respondents failed to establish that general solicitation was not used in all instances. The Division's evidence established that MF engaged Capital Strategies Group ("CSG') to sell MF Notes to four of their clients and CSG raised $1,000,000. There was no prior existing relationship between Respondents and the four investors brought in by CSG. If no prior relationship exists between the promoter and the offerees, courts generally view attempts to sell securities as general solicitation. *See In the Matter of Kenman Corporation,* 32 S.E.C. Docket 1352, fn6 (1985) (stating "In determining what constitutes a general solicitation, the Commission's Division of Corporation Finance has underscored the existence and substance of pre-existing *elationships between the issuer and those being solicited."). In addition, Hartgraves testified that it was by word of mouth, where somebody would tell somebody, who then would contact Hartgraves about the opportunity to invest. (Hr'g Tr. Vol. 11, p. 221). **There was no evidence that Hartgraves established a prior existing relationship with each of**

these individuals before he offered 3r sold them the MF Notes. In light of these transgressions, the MF Notes do not qualify as an exempt transaction pursuant to A.R.S. § 44-1 844(A)(1).”

It is my opinion that #9 above may be an example of the commission validating perjury, does this seem accurate? It is my opinion that one is not supposed to solicit unregistered securities if they are unlicensed, that those transactions must be registered under The Securities Exchange Act of 1934, REG D, Section 506 for registration purposes, is this opinion correct?

10. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Violations of of A.R.S. § 44-1844(A)(7)
(See Page 21, lines 21 - 24)
“IX. THE MF LENDERS SECURITIES OFFERINGS DO NOT QUALIFY FOR A TRANSACTION EXEMPTION PURSUANT TO A.R.S. § 44-1844(A)(7) BECAUSE THE REQUIREMENTS OF THE STATUTE WERE NOT MET.
The Respondents failed to prove that the MF Lenders securities offering qualified as an exempt transaction pursuant to A.R.S.§ 44-1 844(A)(7).”

11. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Violations of of A.R.S. *§* 44-1842
(See Page 22, lines 20 - 22)
“X. JIMMY HARTGRAVES, MORGAN FINANCIAL, LLC, AND MORGAN FINANCIAL LENDERS, LLC, ARE NOT REGISTERED AS SECURITIES SALESMEN, DEALERS, OR BROKERS AND THEREFORE ANY OFFER OR SALE OF A SECURITY BY THEM WAS IN VIOLATION OF A.R.S. *§* 44-1842.”

12. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Violations of A.R.S. § 44-1842
(See Page 23, lines 1 – 13)
“Unless a transaction is exempt, it is unlawful for any unregistered dealer or salesman to offer or sell securities within the State of Arizona. *See*A.R.S.§ 44-1842. Specifically, A.R.S. § 44-1842 states that it is unlawful for any dealer to sell or purchase or offer to sell or buy any securities, or for any salesman to sell or offer for sale any securities within or from this state, unless the dealer or salesman is registered as such pursuant to the registration provisions of the Securities Act. The Division established that, between the timeframe of February 1, 2006 to March 9, 201 1, MF, Hartgraves, and MF Lenders were not registered as dealers or salesmen with the Commission when they offered or sold securities within or from Arizona. (Ex. S-2(a) - 2(c); Hr'g Tr. Vol. I, pp. 136-141). As previously discussed, neither the MF Notes nor the MF Lenders securities offering were exempt transactions. Since Respondents are unregistered securities salesmen and dealers and failed to establish they qualified for an exemption to the registration requirements of A.R.S. § 44-1842, each offer or sale of a security by Hartgraves, MF, or MF Lenders violated A.R.S. § 44-1842.”

13. SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Violations of A.R.S. § 44-1801
Violations of A.R.S. § 44-1801(26)
Violations of A.R.S. § 44-1841
Violations of A.R.S. § 44-1842
Violations of A.R.S. § 44-1844
Violations of A.R.S. § 44-1844(A)(7)
(See Page 24, lines 8 - 14)
“E. CONCLUSION.
Based on the foregoing, the Division respectfully requests the ALJ to recommend to the Commission an order for restitution in the amount of $5,461,700, order an administrative penalty in the amount of $100,000, order any additional relief the Commission deems appropriate, and determine that Respondents MF, Hartgraves, and MF Lenders, and the marital community of Hartgraves and L. Hartgraves are jointly and severally liable for the full amount of restitution and Administrative penalty.”

If the Committee finds that there were violations securities acts, including fraud and willful violations of securities law both state and federal; moreover, willful withholding of evidence from the Borrowers, the Investors and the Commissioners, does this constitute a violation of A.R.S. §44-1991? If so, why is this not mentioned above list of violations of Arizona Revised Statutes?

14. EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES
Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12
Is this an example of the Respondents admitting that he agreed he was selling unregistered securities?
(See Page 32, Lines 1 – 13)
Q. But yeah, sometime in '09.

"A. So we meet with Don -- with Paul, and Don Newman was our counsel at the time and author of our subordinated and promissory note. We met with Paul, and Paul had basically -- I will use the word suggested because I don't know what the proper legal term is at this point -- that our promissory note was a security. At the table there was some back-and-forth. My impression was that Paul won the argument, that it was a security. Don was claiming it was a commercial note. So at the time it was suggested that we correct our subordinated promissory note into something that fit a security."

It is my believe that the Respondent clearly admitted that he had realized from his meeting with Paul that these were securities. However, it is my opinion that the Respondent has been doing everything he can to defy his admission under oath that this is a security and once again assert that is a note.

15. AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
Page 26, Lines 21 – 27 and Page 27, Lines 1 – 6 CONCLUSIONS OF LAW
1. The Commission has jurisdiction of this matter pursuant to Article XV of the Arizona Constitution and A.R.S.§44-1801, *et seq.*
2. The investment offerings as described herein and sold by Respondents Jimmy Hartgraves, Jr., MF and MF Lenders **constitute securities within the meaning of A.R.S. §44-1801.**
3. Respondents Jimmy Hartgraves, Jr., MF and MF Lenders acted as dealers and/or a salesman within the meaning of A.R.S. §44-1801(9) and (22).

16. AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
Page 27, Lines 1 – 6
1. The Commission has jurisdiction of this matter pursuant to Article XV of the Arizona Constitution and A.R.S. §44-1801, *et seq.*
2. The investment offerings as described herein and sold by Respondents Jimmy Hartgraves, Jr., MF and MF Lenders constitute securities within the meaning of A.R.S. §44-1801.
3. Respondents Jimmy Hartgraves, Jr., MF and MF Lenders acted as dealers and/or a salesman within the meaning of A.R.S. § 44-1801(9) and (22).
4. The actions and conduct of Respondents, Jimmy Hartgraves, Jr., MF and MF Lenders constitute the offer and sale of securities within the meaning of A.R.S. § 44- 180 l(2 1).
5. The securities were neither registered nor exempt from registration, in violation of 9.R.S. § 44-1841.
6. Respondents offered and sold unregistered securities within Arizona in violation of 9.R.S. § 44-1841.

17. AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
Page 26, Lines 7 – 17
7. Respondents offered and sold securities within or from Arizona without being registered as a dealer and/or salesman in violation of A.R.S. § 44-1842.
8. The marital community of Respondents Jimmy Hartgraves, Jr. and Laurie Hartgraves should be included in any order of restitution and penalties ordered hereinafter.
9. Respondents Jimmy Hartgraves, Jr., MF and MF Lenders have violated the Act and should cease and desist pursuant to A.R.S. §44-2032 from any future violations of A.R.S. § 44-1841 and 44-1842 and all other provisions of the Act.
10. The actions and the conduct of Respondents Jimmy Hartgraves, Jr., MF and MF Lenders constitute multiple violations of the Act and are grounds for an order assessing restitution to Mr. and Mrs. Michael Graf pursuant to A.R.S. § 44-2032 and administrative penalties pursuant to A.R.S. § 44-2036.

18. AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
Page 5, Lines 8 – 16
(Two witnesses):
On December 30, 2009, the Notice was filed in this proceeding and subsequently amended on January 13, 201 1, wherein it was alleged that Respondents Jimmy Hartgraves, Jr., MF, and MF Lenders had committed multiple violations of the Act in connection with the offer and sale of securities in the form of notes and/or investment contracts. It was alleged that Respondents committed registration violations in violation of A.R.S § 44-1841 and 44-1842. 7. In support of the allegations raised in the amended Notice with respect to Respondents' alleged violations of the Act, the Division called two investor witnesses to testify, Mr. Michael Graf and Mr. Stephen Barnes. Mr. Michael Brokaw, a special investigator with the Division, also testified concerning the allegations.

Does A.R.S. §1991 apply as a result of your findings if your findings are correct?

19. AZCC RECOMMENDATION OF ADMINISTRATION LAW JUDGE MARC E. STERN. Date February 28, 2012 DOCKET NO.: S-20719A-09-0583
OPINION AND ORDER (33 PAGE DOCUMENT)
Page 17, Lines 15 and 16.
110. According to Mr. Hartgraves, at the time, mortgage-backed securities "were gold," "super safe" and the "super secure side" of the investment market. (Tr. 224: 8-12)

V. EXMAMINATIONS OF HARTGRAVES UNDER OATH

It was not clear to me, are these examples of PERJURY to the Investors, the quality of the loans and regarding the Respondent's testimony?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES
Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12
Examination by Mr. Huynh in black (also noted as Q)
Answers by Jimmy Don Hartgraves (also noted in red as A for Answer)

BEGINNING OF EXAMINATION BY MR. HUYNH, SWEARING OF THE OATH:
(See Page 7, Lines 12 -19)
12. Since you're now under oath, any false statements
13 you make knowingly can subject you to administrative

14 penalties by this agency as well as criminal prosecution
15 as perjury or false swearing, both of which are felony
16 offenses in Arizona.
17 Do you understand that you are oath under here
18 today?
19 A. Yes, I do.

1. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

It is my opinion that The Respondent states he has nothing to hide from examiners; however, did he provide the approximate one thousand pages of evidence? Did he provide the 19 Lis Pendens filed? Were the investors notified about the Trustees accusations of First Magnus fraud or the claims of fraud by the Borrowers?

(See Page 30, Lines 20 and 21)

20. Arizona Corporation Commission. We have nothing to hide
21. so we said "Sure."

2. EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Is this an example of the Respondents admitting that he agreed he was selling unregistered securities? Did the Respondent ever get a securities license or register the securities?

Page 32, Lines 1 – 13

Q. But yeah, sometime in '09.

"A. So we meet with Don -- with Paul, and Don Newman was our counsel at the time and author of our subordinated and promissory note. We met with Paul, and Paul had basically -- I will use the word suggested because I don't know what the proper legal term is at this point -- that our promissory note was a security. At the table there was some back-and-forth. My impression was that Paul won the argument, that it was a security. Don was claiming it was a commercial note. So at the time it was suggested that we correct our subordinated promissory note into something that fit a security."

However, when Gotses met with Hartgraves in April of 2011, Gotses told me that he notified Hartgraves that he engaged in Securities Fraud. Hartgraves denied the statement and claim.

3. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 37, Lines 10 – 23

Was there full disclosure to the Commission and the Investors?

Was there an explanation of the entire package?

10. Q. Okay. And what was the general -- or what was
11. the general understanding or discussion with those
12. individuals regarding the purpose of the Exchange
13. Memorandum or the exchange itself? If you could briefly
14. summarize it.
15. A. The purpose of the Exchange Memorandum?
16. Q. Yeah.
17. A. To the investors?
18. Q. Yeah.
19. A. Was to basically walk them back through the

entire transaction and exchange their notes, their subordinated promissory notes, for an Exchange Memorandum, for a new document to fit us within compliance of the Arizona Corporation Commission –

4. Were there any new funds raised?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 38, Lines 4 - 8

Hartgraves asserts there were no new funds raised. After Feb 2010, were there new funds raised?

Q. Okay. And as a result of this Exchange Memorandum, were there any additional or new funds raised or obtained as a result of this document or discussion?

A. Any new funds raised?

Q. Yeah.

A. No.

5. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 39, Lines 11- 22

Did the entire package provide the evidence and material facts raised by the defrauded borrowers? Were the findings of the Trustee disclosed to the borrowers?

Is this perjury, the promise the Respondents made was to inform the Investors that they had to sign the new documents to get their money back, which was not true and we believe the Respondent already knew this information.

Q. Okay. *So*, to the best your recollection, was this entire packet basically provided to the individuals that we have here as Exhibit 6?

A. Yes.

Q. Okay. Were there any guarantees made or any new promises made in an effort to effectuate the change from the subordinated promissory notes to these -- to this proposal here listed in Exchange Memorandum?

A. No.

Q. I am flipping to page ACC1072. It's a page that has "Morgan AZ Property Values. Can you give me an overview of what that page represents?

A. This is a list of the properties that are secured by the First Magnus portfolio that we purchased from Merrill Lynch, now Bank of America.

6. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Throughout the document

Were the investors made aware that the original appraisals did not confirm to USPAP regulations, never mentioned the bankrupt golf course and club house and that monies were misappropriated out of the construction loan accounts or that there were approximately 19 Lis Pendens filed by many of the Borrowers?

7. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 41, Lines 8 -16

It is my opinion that the Respondents represented themselves as experts in the industry. Were all the material facts delivered to the commission and the Investors before or after the investments or ever? Has the AZCC examined Merrill Lynch's role in this

transaction as it relates to any improprieties? If not, why? It is my opinion that the Trustee, Merrill Lynch, Borrowers, and the Borrower's attorney placed the Respondents "on notice" prior to the purchase. As of today's date, it is my opinion that these material facts may have been withheld from the Commission and the Investors. If the Respondent understood how to manage contractors and they were put "On Notice" that the Original Promoters did not have a contractor's license, is this perjury?

First Magnus went under. They had three construction lending portfolios. We were predominately a construction lender in our mortgage banking status. We would do rehab loans, construction loans. So we understood how to manage contractors really well, how to deal with broken priority on title real well. We were licensed as a contractor, licensed as a real estate broker, and licensed as a mortgage banker. It was a perfect fit.

8. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 42, lines 8 -16

It is my opinion that the Borrowers clearly informed the Respondents that the Original Promoters were not licensed and that monies were stolen from the construction accounts and the appraisals were fraudulent. It is my opinion that there was fraud from many angles: The contractor, the developer, the appraisals, the loans, the bank, the lenders and the construction accounts. In my opinion, this looks like this was a case of the Original Promoters violating securities laws and committing securities fraud on the Borrowers, and then Hartgraves to the Investors and the Borrowers he is extorting by perpetuating fraud with the willful intent to omit material facts from the Commission, the Judge, the Investors and the Borrowers.

Those who have lost millions and who were defrauded:

The Borrowers
The Investors

Who got paid millions?

The Original Promoters got paid
First Magnus got paid
Hartgraves got paid.

8. So First Magnus or Merrill Lynch sent us what
9. they call a "tape" in the industry. It's basically a disk
10. of all of the assets. These assets are constantly being
11. refinanced and sold off. These were all construction
12. loans. These all had end users involved with them. It
13. was no different than the portfolio we were doing on one
14. off. It had a contractor, a homeowner, and a lender.
15. What normally goes wrong is the borrower goes bad. In
16. this case the bank went bad.

9. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 44, Lines 1 – 7

It is my opinion that the Flagstaff Ranch portfolio (approximately 24 lots) was worth $7,000,000. It is my opinion that the Respondent never disclosed to the Committee that there were two distinctly different groupings on loans. One group is those that did not include Flagstaff Ranch for which he paid approximately 80% of appraised value and the other group is the Flagstaff Ranch loans that he supposedly paid 56% for. However, the 56% is, in my opinion, highly inaccurate since the valuation of 56% was based upon fraudulent appraisals. This is known as perjury in my opinion.

A. We purchased the portfolio for 33 million. We put 2 million down, which give us a note balance of 3 1 million. We had principal balance of 50 million. *So* he we had 19 million spread. *So* there was more than sufficient reserve to pay off the 5-plus million dollars -- $6 million in notes and still make Morgan a very healthy profit.

10. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 45, Lines 19 – 25 and Page 46, Lines 1 – 9

Hartgraves admits that houses are not worth much when there are problems. He clearly knew of problems and recklessly invested his investor's money with little to no personal risks as he would get:

1. Fees and money from ML
2. Fees for promoter and management fees
3. Construction fees
4. Real Estate loan fees
5. Real Estate sales fees
6. Profit sharing with Merrill Lynch

11. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 47, Lines 4 -12

It is my opinion that the lots were worth $200,000 (including the $60,000 golf membership). The Respondents were notified of the property values, the bankrupt community center, the Lis Pendens, etc. Respondents knew that there were significant problems with the appraisals:

The values that we get show that we still have sufficient funds to pay back our portfolio borrowers. The values that the bank is getting from Landsafe, if you go to their -- and they have had to reorder them several times because they -- on one property they will get -- I can't remember the specific lot number, but on a house we have in Flagstaff Ranch, they had an appraisal that was $495,000 and an appraisal that was $895,000; it's the exact same house.

12. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 47, Lines 17 – 25

It is my opinion that the Flagstaff Ranch portfolio was full of fraudulent loans, fraudulent appraisals, First Magnus colluding to defraud the Borrowers. It is my opinion that there never was equity in this deal. The Real Estate market can be argued that it dropped 50% since February of 2007 to today's date; however, the Respondents are now selling

properties for $29,000, plus a $15,000 transfer fee and $40,000, plus a transfer fee. It is my opinion that if one reviews the evidence, there was never any equity in these lots at the price the Respondents paid. It is my opinion that Real Estate in Arizona has not declined 80% to 90%

Based on our records there are sufficient funds to pay our borrowers. It's diminishing. We had another 6 percent decrease, but I don't know which way the economy is going to go in the future. All we can do is work with Merrill Lynch to try to give them cash today versus cash down the road.

Q. And based on your appraisal values what is that equity cushion, if you recall?

A. I think we are pushing -- I think we have enough funds to pay our borrowers back and that is it.

13. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 50

Was there actual money invested or just a note? Hartgraves represents it is physical money of $897,000. Was there an actual deposit into the Investor's pool or was it a promissory note?

Q. Okay. And on this document here, Mr. Hartgraves,it also has yourself and Laurie listed on here with a contribution of about $897,000; is that right?

A. That's correct.

Q. Okay. And *so* that is -- can you just confirm for the record, what does that amount represent?

A. That is he physical money that we have into the portfolio.

14. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 59, Lines 13 – 19

It is my opinion that investing unaccredited and unsophisticated investors money into a project where the Respondents were put "on notice" that there was embezzlement, fraud, lawsuits, inflated appraisals, Lis Pendens filed may contradict the statements and representations made below.

Did the Respondents notify the Investors of all the fraud?

The reason that the Flagstaff properties have not progressed as rapidly is that the community, Flagstaff Ranch, was involved in a bankruptcy proceeding from the previous developer. And so rather than continue to put a lot of investors' money into this project, we held off. We are waiting. We are making sure our assets are sealed and protected, and then we are waiting for construction.

15. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 60, Lines 18 – 25 and Page 61, Lines 1 – 3.

It is my opinion that these statements may not be accurate. It appears that the Respondent holds himself out as an expert in the industry within multiple fields; however, it still seems unclear if it is my opinion that he invested their money at no risk to him, properties over-valued by 200% to 400% and were procured by Goett fraud, embezzlement, unlicensed contractors and financed by First Magnus and their known fraud, invested with nonaccredited investors and full failure to properly notify the investors of the fraud and problems.

A. It's important when you have a broken priority, which we have in the construction process here, when you have a subdivision that has been in bankruptcy, when you have

houses that have sat at some stage of construction, that you have somebody representing that property that has in-depth knowledge. Otherwise, you get the typical bank-owned, no spuds, no clues --no clue is what I want to call it --bump them and dump them mentality. We owe to our investors better than that, and we owe to Merrill Lynch better than that, so that is why we choose to represent them.

16. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 61, Lines 7 – 11

It is my opinion that the economy had little to do with Lender fraud, inflated appraisals. There were Lis Pendens filed. How could the project offer 18 month return with all the Fraud the Respondents were notified of?

A. Our original target date was inside of 18 months from the original purchase. Outside forces, such as the banking industry and the collapse of the real estate industry, has changed our target dates and continue to change those target dates today.

17. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 62, Lines 5 – 15

It appears that Hartgraves admits to misrepresenting the completeness of the homes and refers to this as, "SKIMMING." Is this a form of fraud, misrepresentation and omissions of material facts?

So we have been working with Flagstaff Ranch Homeowners' Association and going through the homes that are not complete and what we call "skimmingn them, which is windows, siding, doors, clear through to where when you drove through that neighborhood the 14 houses that we have there would look complete. NOW, if you open the door on the inside they would have two-by-fours or they would have rough frame or they would have something like that. But if you drove through the community, you wouldn't know whether it was a complete house or not, thus bringing the stability of Flagstaff Ranch up.

END OF EXAMINATION BY MR. HUYNH

BEGINNING OF EXAMINATION BY MR. BLACK

18. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 65, Lines 4 – 25 and Page 66 Lines 1 - 8

It is my opinion that the statement that the portfolio had a value of $70 million was exaggerated. According to William Gotses, Robert Semple had offered approximately $7,000,000 for the 24 finished and unfinished lots and Robert Semple stated that he notified the Respondents that the properties had a fair market value of $7,000,000 at the time of the Respondent's purchase in May of 2008. There was never $70 million in this deal. There was no equity and there were no construction permits.

A. The 50 million was the, yes, the principal balance.

Q. That is not the fair market value of those properties on the date you purchased the portfolio; correct?

A. That's correct. It was substantially higher.

Q. The fair market value on those properties was substantially higher than the principal balances outstanding?

A. Correct, in excess of 70 million.

Q. *So* the --what is the relevance of the principal balances outstanding on the loans, in your mind?

A. Just an important piece of data that I think people would use.

Q. Principal balance is the amount the borrower owes on the property; correct?

A. Correct. At the purchase of the portfolio, I had individuals that owed us $50 million that we paid 33 for. So if the economy hadn't changed and people's mentality hadn't change as to whether or not they were willing to walk away from homes, then I had, back in the

good-olddays when people would beg, borrow, and steal credit cards, grandma, grandpa, money to pay for that $50 million. So I didn't even have to take the property back. I already had $50 million owed to me. That is why it was a number.
Q. And at the time you purchased the portfolio you didn't anticipate there being a foreclosure -- let me finish -- nightmare that has transpired over the last couple or three years?

19. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 67, Lines 1 -2 and lines 3 - 6

It is my opinion that these were fraudulent loans. For example, the contractor approved by First Magnus did not have a license. Another example is that some of the Borrowers furnished W-2's, First Magnus then fraudulently increased the income. First Magnus knew the Borrowers in most cases were not qualified.

This portfolio from Merrill Lynch was predominately stated income people. When those loan programs went away after Lehman Brothers went away --which, by the way, after we were already committed into this process -- our ability to exit via the existing borrowers in toe went away. If, for example, the $50 million that you refer to was all we would get back -- you know, you go back to today, will the big banks negotiate to what your house is worth and redo your note? We could have done that with people. We had 25 percent of First Magnus' money into the transaction. That was above and beyond the $50 million that was owed principal balance. *So* we could have reduced our entire portfolio by $25 million of what the borrowers owed if we still had loan programs available to us. But when the economy -- when the loan programs, mortgage-backed security market collapsed, it took away a lot of these borrowers' ability to exit. And when these borrowers had the ability to exit to go away, it gave us only one choice, foreclose. I begged and pleaded with Merrill Lynch, "Please. Please. Please, let's us figure out a way to just write loans for these people.

20. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 68, Lines 9 – 19.

According to William Gotses, Robert Semple told him that the properties without the golf membership were worth $120,000 per unfinished lot; however, it appears as though the Respondents invested the investor's money into overinflated prices and not underinflated prices. It is my opinion that this is perjury.

***Q. So* back when you were looking at purchasing or Morgan was looking at purchasing this portfolio, you weren't looking just at principal balances outstanding. I mean, you had an idea as to what the fair market value of the properties were back then?**
A. Oh, absolutely. We went out and did appraisals on every property.
Q. And that was significant in your mindset as to whether to purchase this portfolio?
A. We were at below 54 percent loan-to-value when we purchased this portfolio.

21. Is this PERJURY?

EXAMINATION UNDER OATH OF JIMMY DON HARTGRAVES

Phoenix, Arizona November 30th, 2010 EXHIBIT #: S-12

Page 70, Lines 5 – 24

It is my opinion from the Commissioner's statements that they disproved this statement made by the Respondents. The Respondent represents that "All of our clients came via referral from other clients." Is this true? If this is not true, is my opinion that this is another violation of Accredited Investors and fraudulent solicitation on non accredited investors in a Private, Reg D or Unregistered Offering. Was this statement verified by the Investors to validate if the Respondent was engaging in Perjury?

Q. Did you discuss Exhibit 4 when it was provided to --Exhibit 4 is a promissory note; correct?
A. It's the subordinated promissory note, yes, sir.
Q. That was provided to various investors?
A. Yes, sir.
Q. Did you discuss Exhibit 4, the promissory note, with various investors before they signed it?
A. Were there questions and answers on this when it was provided to them, is that the question you are asking?
Q. Let me back up.
Did you present the promissory note to various investors?
A. Correct. If a client asked to become part of our portfolio, then we would send them out the promissory note and ask them to review it with counsel and CPAs. And then if they had questions, we would sit down and meet with them. All of our clients came via referral from other clients, so they had already seen it before they got it from me. They saw it from Uncle Tom or somebody.

END OF EXAMINATION BY MR. BLACK

22. Is this PERJURY?
I do not understand this statement, is this the Commissioner's findings that The Respondent has perjured himself under oath?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Is this an example of multiple misstatements of material facts and misrepresentation regarding violations of ARS and securities laws?
Violations of the Securities Exchange Act of 1934, Rule 10b-5
(See Page 13, lines 14 – 19).
"Thus, MF's attempt to characterize MF as being an agency monitored by DFI is inappropriate because the testimony regarding high oversight standards, solicited from Mr. Hartgraves at the hearing, did not exist during the timeframe of the MF Notes offerings." **MF' prior registration was as a mortgage broker, which does not contain the higher oversight standards that a Mortgage Banker is subject to. Second, the MF Notes are not of a prime quality required for the commercial paper exemption."**

23. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
I do not understand, are you stating that the Respondent perjured himself when you state that his representations were "misplaced?"
Violations of the Securities Exchange Act of 1934, Rule 10b-5
(See Page 14, lines 3 – 5).
"Thus, the attempt to paint the MF Notes as high quality instruments sold only to highly sophisticated investors is misplaced."

24. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Is this perjury?
The Respondent in previous sections above stated that it was a "WORD OF MOUTH" and there were no solicitations of securities.
Violations of the Securities Exchange Act of 1934, Rule 10b-5
(See Page18, lines 7 – 11)

First, **Respondents failed to prove that the offering did not involve a general solicitation.** The manner in which the investment was offered pursuant to Section 4(2) and Rule 506 of Regulation D must not involve general solicitation. **If no prior relationship exists between the promoter and the offerees, courts generally view attempts to sell securities as general solicitation.** *See In the Mutter of Kenman Corporation,* 32 S.E.C. Docket 1352, fn6 (1985)..."

25. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Is this stating that the Repondent Purjured himself?
(See Page18, lines 15 – 22)
"Rather, MF engaged Capital Strategies Group ("CSG') to sell MF Notes to four of their clients and CSG raised $1,000,000. **There was no prior existing relationship between Respondents and the four investors brought in by CSG.** These four individual clients later became MF Lender membership unit holders and John Peart of CSG was the contact or custodian of their investments. (Ex. S-13). In addition, **Hartgraves testified that it was by word of mouth, where somebody would tell somebody, who then would contact Hartgraves about the opportunity to invest. (Hr'g Tr. Vol. 11, p. 221). These instances show that strict compliance with the exemption did not occur."**

26. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
(See Page19, lines 2 - 17)
"Rule 506 does not limit the number of accredited investors who can be sold securities during an offering. The rule states the investor must be accredited or the issuer must reasonably believe the investor is accredited at the time of the sale of the securities. *See* 17 C.F.R. 0 230.501(a). The only evidence that Respondents presented at the hearing was **testimony by Mr. Hartgraves that about fifteen of the investors were accredited; however, there were no documents entered into evidence to support this claim. In addition, there was no evidence present by Respondents that the fifteen alleged accredited investors were accredited at the time of the offers and sales. In fact, Mr. Hartgraves did not even name or specify which fifteen investors were allegedly accredited.** (Hr'g Tr. Vol. 11, pp. 260-262). **The record is devoid of a document, investor questionnaire, or form executed by each investor that stated their accreditation or sophistication status.** Without any documents, or even evidence that such documents were used, any argument that Respondents held a "reasonable belief" of any investor's accreditation or sophistication status should be devalued. Without proof any investor was actually accredited, we must *assume* that all forty-four (44) investors are unaccredited.' Offers and sales to more than thirty-five (3 *5)* unaccredited investors prohibit the Respondents from satisfying the requirements of a Rule 506 offering. *See* 17 CFR § 230.506(b)(2)(i)."

27. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Mistatements of material fact and misrepresentation

44 Willful violations of the registration process
44 Willful violations by the improper solicitations of non-accredited investors
44 Violations of the Securities Exchange Act of 1934, Rule 10b-5

44 Violations of the Securities Exchange Act of 1934, Rule 506
44 Violations of the Securities Exchange Act of 1934 Sections 4(2)

(Page 20, lines 1 - 13)
"There was no evidence presented that each unaccredited investor had such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of the prospective investment. *See Mark* v. *FSC Sec. Corp.*, 870 F.2d 331, 335 (6th Cir. 1989). Clearly the Respondents would be unable to meet this burden because at the hearing the Division solicited testimony from Mr. Graf and Mr. Barnes who testified they were neither accredited nor sophisticated investors at the time of \he MF Lenders offering or at any point in time, respectively. Mr. Graf and Mr. Barnes testified :hat they had very limited real estate experience, little to no knowledge in lien foreclosure proceedings, and were not aware of all the nuances and details of the Merrill Lynch transaction. [Hr'g Tr. Vol. 11, p. 47; pp. 97-98; pp. 106-1 14). Since the record is devoid of tangible evidence that the offering was not made publicly or that each investor was accredited or sophisticated at the ,ime of the offer, the Respondents have failed to prove they qualify for the exemptions provided by Section 4(2) and Rule 506. Without tangible proof that any of the investors are actually accredited, it should be presumed that all forty-four investors are unaccredited and thus the qualifications of a Rule 506 exemption are not strictly complied with."

28. Is this PERJURY?
SECURITIES DIVISION'S POST HEARING BRIEF filed Aug, 1, 2011,
DOCKET NO. S-20719A-09-0583
Is this your commission's statement that Hartgraves perjured himself?
(See Page 21, lines 5 - 20)
"VIII. THE MF NOTES DO NOT QUALIFY FOR A TRANSACTION EXEMPTION PURSUANT TO A.R.S. § 44-1844(A)(l) BECAUSE IT WAS A PUBLIC OFFERING.
As noted earlier, Respondents failed to establish that general solicitation was not used in all instances. The Division's evidence established that MF engaged Capital Strategies Group ("CSG') to sell MF Notes to four of their clients and CSG raised $1,000,000. There was no prior existing relationship between Respondents and the four investors brought in by CSG. If no prior relationship exists between the promoter and the offerees, courts generally view attempts to sell securities as general solicitation. ***See In the Matter of Kenman Corporation,*** **32 S.E.C. Docket 1352, fn6 (1985) (stating "In determining what constitutes a general solicitation, the Commission's Division of Corporation Finance has underscored the existence and substance of pre-existing *elationships between the issuer and those being solicited."). In addition, Hartgraves testified that it was by word of mouth, where somebody would tell somebody, who then would contact Hartgraves about the opportunity to invest. (Hr'g Tr. Vol. 11, p. 221). There was no evidence that Hartgraves established a prior existing relationship with each of these individuals before he offered or sold them the MF Notes. In light of these transgressions, the MF Notes do not qualify as an exempt transaction pursuant to A.R.S. § 44-1 844(A)(1)."**

VI. FINAL QUESTIONS

1. Do the commissioners and professional special investigators believe that if the properties at Flagstaff Ranch are now being sold by the Respondent for $29,000 plus a transfer fee of $15,000 and for $40,000 plus a transfer fee of $15,000; therefore, at this rate will the Investors get their money back?
2. Do the commissioners really believe that Arizona property values have dropped over 90% ($585,000 or even $850,000 down to now $29,000 or $40,000)?

3. Is there a reason why Merrill Lynch is not being brought into this Committee review and legal proceeding?
4. Does the panel intend to collect the additional sum of monies from Merrill Lynch?
5. If the Respondents file bankruptcy, the judgment of nearly $6,000,000 may be completely discharged and therefore, the fines and administrative penalties may not allow the Respondents to fully pay the sums to the Investors.
6. If the panel finds that the Respondents violated Securities Laws of the State of Arizona and the Committee also mentioned violations of Federal Law in the Securities Exchange Acts of 1933 and 1934, what are the penalties for such findings?
7. If it is found that the Respondents willfully withheld evidence from the Committee, the Judge, the Investors and the Borrowers, is a $10,000 or even a $100,000 fine appropriate punishment for Securities fraud and duping investors?
8. Is this a message to other individuals that if one is found guilty of defrauding investors, willfully engaging in securities fraud, they get a small fine, the decision that can be wiped out by filing bankruptcy and they can reengage in the same business activities (creating similar fund raising activities, building homes that they are "Skimming", selling homes, moving forward with undisclosed fraudulent loans) and continue to succeed in business?
9. Does the panel intend to make any referrals to other licensing and regulatory bodies?
10. Does this new potential evidence give cause for the panel to introduce further ARS violations, such as A.R.S. §44-1991?
11. Does the new potential evidence give cause for the panel to delay their recommendations to the judge so that they can properly review and make informed decisions on the new evidence and how it may or may not connect the Respondents to the alleged fraudulent appraisals, Merrill Lynch and the Investors?
12. It is my belief that it may be helpful for the Commissioners and the special investigators to examine the link between First Magnus, Kitty Dobey (an employee of the executives of First Magnus and a friend / Investor of Jim Hartgraves) and the Respondents.
13. How many counts of Securities Fraud need to occur before there is a significant punishment in this investigation?
14. How many counts of Perjury need to occur before there is significant punishment in this investigation?
15. Is the end result a fine (which bankruptcy cures) and the Respondent will be allowed to conduct business as usual once paid?
16. What monies were moved to the offshore trust? What are the true assets of the Respondents?